DESCRIPTION AND JUSTIFICATION

1.0 Introduction and Description of Filing

In this tariff filing, scheduled to become effective June 15, 2001, the Bell Operating Companies (BOCs) propose to implement a number of changes to Tariff F.C.C. No. 1, 800 Service Management System (SMS/800) Functions (SMS/800 Tariff). Specifically, the BOCs propose to reduce rates and charges based on current cost and demand data, and to modify, add, or delete certain tariff terms and conditions. Additionally, several minor typographical changes are included.

1.1 Modify Rates and Charges

This tariff filing is being made by the BOCs primarily to reduce the rates and charges in the SMS/800 Tariff. The proposed reductions, reflecting the BOCs' most current estimates of demand and cost for services provided under the tariff, would reduce revenue over the prospective one-year period of June 15, 2001 through June 14, 2002 by $49.06 million. The rate reductions have been made possible by the continued high demand for toll-free numbers and the BOCs' effective management of the many cost factors and activities required to provide responsive service, with high levels of availability and reliability, to an increasing number of Responsible Organizations (Resp Orgs).

The most significant reduction, in terms of revenue impact, is the proposed decrease in the Customer Record Administration (CRA) charge from $0.37 to $0.2284. Other rates and charges are either reduced or unchanged. A comparison of current and proposed rates, as well as the revenue impact of the rate changes, is displayed in Table 1, (after section 4.6).

1.2 Tariff Terms and Conditions

As part of this filing, the BOCs propose to modify, add, or delete various tariff terms and conditions. Included are the following changes as they occur throughout the tariff:

- Certain technical references specified in the SMS/800 Tariff have been updated.
- Addresses specified in the SMS/800 Tariff for use in remitting payments, ordering documentation, etc. have been updated.
- Descriptions of the subscriber record activation, number administration, and Resp Org Change processes have been updated and simplified.
- Provisions pertaining to a Resp Org's request for a copy of its monthly bill have been clarified.

- The charge for assistance provided outside of the normally scheduled work hours has been discontinued.
- Provisions pertaining to access to the SMS/800 have been modified to include the availability of access via the internet, and to update data transmission rates for dial-up and dedicated access.
- Restrictions on Resp Org reproduction and distribution of proprietary SMS/800 documentation have been modified to reflect the availability of such documents on the SMS/800 website.
- Provisions pertaining to the certification of new Resp Orgs as part of initial service establishment have been modified to delete mandatory subscription to the SMS/800 User Guide publication.
- In addition, the name of U S WEST Communications, Inc. has been changed to Qwest Corporation to reflect a merger and name change to Qwest Corporation, the names of Bell Atlantic Telephone Companies and NYNEX Telephone Companies have been changed to Verizon Communications, Inc. as a result of mergers and name changes, and the names of the Ameritech Operating Companies, Nevada Bell, Pacific Bell and Southwestern Bell Telephone Company have been changed to SBC Communications, Inc. as a result of their mergers.
- Minor text corrections have been made to reflect correct spacing, spelling, punctuation, etc.

2.0 Revenue Requirement Development

The prospective revenue requirement for SMS/800 consists of expenditures for ongoing operations from June 15, 2001 through June 14, 2002. Virtually all of the costs are expense items. Specific budget items for SMS/800 ongoing operations are:

1. *SMS/800 Operation and Administration* which consists of: (a) Help Desk operational support to SMS/800 users including telephone assistance related to interfacing with SMS/800 and preparation/maintenance of toll-free number records, and processing of requests for changes in Responsible Organization for toll-free numbers; (b) day-to-day management and administrative oversight provided by the SMT Business Manager including planning, billing and collections, administration of vendor contracts, participation in SMS/800 User Groups, and coordinating the activities of consultants that provide accounting, cost analysis and website support related to SMS/800; and (c) the indirect cost (calculated at 15% of direct costs) of internal resources utilized by the BOCs to support management, operation and administration of the SMS/800 including tariff, regulatory, legal, technical and business expertise. The estimated revenue requirement of this budget item is $18,226,322 including $1,725,000 for item (a), $5,384,845 for item (b), and $11,116,477 for item (c).

2. *Data Center Operation* reflects the cost of the production and test/disaster recovery SMS/800 data centers; upgrading of the data centers to increase processing and data storage capacity related to growth and the introduction of new 8XX codes; and operation of a Service Center (Help Desk) facility to handle security and access problems. The estimated revenue requirement for data center operation is $45,000,000.

3. *SMS/800 Software Support* includes the provision of software maintenance, computer site and application support, software development for new features, and the introduction of new 8XX codes. The estimated revenue requirement for software support is $22,000,000.

A comparison of past year (actual) and future (projected) revenue requirements is shown in Table 2.

2.1 Revenue Requirement Distributions

The projected revenue requirement for budget (cost) items was distributed to all rate elements by applying distribution factors based on cost-causation analyses. The methodology used is consistent with the methodology used for all previous SMS/800 tariff filings. The distribution factors actually applied are shown in Table 5. Resulting revenue requirement distributions are shown in Table 4 and include distribution to all SMS/800 services (including those provided to Service Control Point [SCP] Owner/Operators which are offered via contract). Cost-causation analyses were performed and applied to budget elements as follows:

- A Task Oriented Costing (TOC) study was used to distribute SMS/800 Help Desk costs to rate elements. Each person providing Help Desk support was interviewed individually to identify the primary tasks performed, how often the tasks are performed, and the time (minimum, maximum, most likely) spent performing them. Each task was then analyzed and associated with the particular rate element it supports. The resulting distribution factors are shown in Table 5, column (a). All other (indirect) operations and administration costs were distributed to all rate elements proportionally on the basis of the relationship of the magnitude of each element to the total. The calculation method and allocation factors developed are shown in Table 4, columns (f) and (g).
- Data center costs consist primarily of: (a) network equipment and facilities needed to provide communications access for customers' links; (b) storage hardware (tape and disk drives) for toll-free number record data; and (c) central processor used to respond to and execute customer requests for SMS/800 services. *Network costs* are attributable almost entirely to rate elements required to access SMS/800. A unit cost analysis of each type of connection to SMS/800 was used to determine its cost and distribute the network revenue requirement on the basis of the relative, weighted (by demand) cost of each type of access. *Storage costs* are related almost exclusively to number records and were therefore assigned to the Customer Record Administration rate element. *Central Processor costs* are attributable to most rate elements. A two-step analysis was used to determine a reasonable distribution of costs. First, the quantity of lines of computer code used by each SMS/800 software application and platform function were determined and distributed to each rate element supported. Then, usage data reflecting a typical month's internal computer transactions for each software application and platform function was recorded and used to identify the relative usage of processing capacity. Since the relationship between rate elements and software applications/platforms had been established and quantified with the lines of code study, the relationship was extended to processor transactions so that they could be assigned to rate elements. The factors developed with

the lines of code and transactions analyses are shown in Table 5, columns (b) and (c), respectively. The composite factors actually used to distribute total data center costs are shown in column (d).

- The cost of software support includes software maintenance, site support and software development for new features. The software maintenance and site support dollars were distributed on the basis of the lines of code analysis described previously since there is a reasonable relationship between the magnitude of software code and the amount of support effort required to maintain it. The cost of new features was distributed by associating each new feature with the rate element it supports. The factors used to distribute software costs are shown in Table 5, column (e).

3.0 Basis of Ratemaking

The rate structure for SMS/800 consists of service elements that are used by Resp Orgs. The proposed rate for each element is based on its projected revenue requirement and demand. This information is shown in Table 6.

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4.0 Demand Forecast

The demand forecast displayed in Table 3 is based on historical data for the years 1997 through 2000. Information and/or data considered in developing the demand forecast are discussed in the following sections.

4.1 Customer Record Administration

This rate element represents the quantity of toll-free numbers for which customer records exist in the SMS/800 and is charged on a recurring (monthly) basis for each number record administered. The following historical demand data for calendar years 1997 through 2000 was used to forecast CRA demand for 2001 and 2002 using linear regression analysis (Excel's *forecast* function).

1997	1998	1999	2000	***2001***	***2002***
(actual)	(actual	(actual)	(actual)	***(forecast)***	***(forecast)***
139,706,463	181,930,832	222,603,837	268,945,278	***310,394,000***	***353,233,000***

CRA demand for the future year period of June 15, 2001 through June 14, 2002 shown in supporting Table 3 is 329,376,956. It was calculated using the actual demand for December, 2000 as a base and growing it, month-by-month, to equal the forecasts for calendar years 2000 and 2001 displayed above. Demand shown in Table 3 is the sum of the demand for each month, or part of a month, falling within the future year period.

4.2 Change of Responsible Organization for Toll-Free Number

This element provides for changing the Responsible Organization for a toll-free number and is charged on a non-recurring (per request) basis. Historical demand during 1999 and 2000 stabilized at about 100,000 requests and is very likely to continue at that level during 2001 and 2002.

4.3 SMS/800 Access

This service element provides for the connection of dial-up and dedicated communications links to the SMS/800 and is charged on a recurring (monthly) basis. Demand for Dedicated access has been stable during 1999 and 2000 and is likely to remain stable. Demand for Dial-Up access has increased at a rate of 1,500 per year and is expected to continue to grow at that rate.

4.4 Service Establishment

This service element provides for various aspects of establishing service, i.e., first log-on ID, subsequent log-on IDs, and Smart Card replacements. Charges for these services are applied on a non-recurring (one time) basis. Demand has been stable during 1999 and 2000, thus the demand for these elements is forecast to show virtually no growth over the 2001 and 2002 study period.

4.5 Reports

This service element covers the provision of special reports ordered by users from the SMS/800 Help Desk and is charged on a non-recurring (per report) basis. Demand during 1997 through 2000 was stable at about 1200 reports per year and is likely to continue at that level in 2001 and 2002.

4.6 MGI Development and Testing

This service element covers the establishment of a mechanized interface to the SMS/800 for a Resp Org’s operation system and is charged on a non-recurring (per request) basis. No requests for additional MGI interfaces are anticipated for 2001 and 2002.